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UNCLAS PRETORIA 000992

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SUBJECT: SOUTH AFRICA RAISES FUEL PRICES

REF: PRETORIA 2998

Summary

1. (U) On March 2, 2005, the Department of Minerals and Energy implemented an across-the-board increase for gasoline and diesel fuel. This came after three successive price decreases in December, January, and February. Government attributes the price hike to a lower average value of the rand against the dollar and the higher crude oil price that prevailed over the assessment period, i.e., January 26 to February 26. The government has no plans to tap into its Fuel Equalization Fund to smooth retail gasoline price increases as it did last June. In his budget speech on February 23, Minister of Finance Trevor Manuel announced an increase in the tax on gasoline and diesel beginning in April. End Summary.

Government Announces a Fuel Price Increase

2. (U) On March 2, the Department of Minerals and Energy (DME) hiked the retail price for gasoline by 10% and wholesale prices for diesel and kerosene by 8.6% and 12.5%, respectively. This equated to a 7 U.S. cent per liter (26.5 U.S. cents per gallon) increase in the price of gasoline, and a nearly 6 U.S. cent per liter increase for both diesel and kerosene (or almost 22 U.S. cents per gallon). These increases have raised the average retail price per liter of gasoline in Johannesburg to 77 U.S. cents (\$2.91 per gallon) and the wholesale price of diesel and kerosene to 71 and 52 U.S. cents per liter (\$2.69 and \$1.98 per gallon), respectively.

3. (U) The DME attributed the increases to the slightly weaker rand vis-a-vis the dollar and higher crude prices during its January 26 to February 26 assessment period. The rand averaged 6.04 to the dollar versus 5.92 during the previous period. Nevertheless, the increase came as a shock to consumers who expected closer to a U.S. 7 cent per gallon rather than a U.S. 7 cent per liter increase.

4. (U) Despite the large rise in retail prices, there has been no talk of deploying the government's Fuel Equalization Fund to moderate prices, as was the case in June 2004 when prices also rose by 22 U.S. cents per gallon. Using a rand/dollar exchange rate of 6.00, the current price of gasoline per gallon (US\$2.92) is about 15 U.S. cents less than November's all time high of \$3.07 per gallon. Diesel and kerosene are 23 and 26 U.S. cents below the respective record highs of November's \$2.84 and \$2.23 per gallon.

Increased Fuel Taxes Coming in April

5. (U) It does not appear that the price hike will impact the government's intention to raise taxes on fuel. In his budget presentation to Parliament on February 23, Minister of Finance Trevor Manuel announced increases in the General Fuel Levy (GFL) and Road Accident Fund Levy (RAFL) of S.A. 5 cents per liter (less than U.S. 1 cent per liter, or U.S. 3 cents per gallon). These tax increases are to take effect on April 6, bringing the total tax on gasoline and diesel to 36.1% and 35.3% of the pump price, respectively.

6. (U) Comment: Analysts remain confident that South African economic growth should not be seriously hurt in the short term by these increases. The continued strength of the rand against the dollar has protected South African consumers from the full impact of rising world crude oil prices. However, if U.S. interest rates continue their ascent, thus strengthening the dollar, South African consumers could another big price increase at the pump in the future. This could fuel inflation concerns and have negative implications for a hoped for cut in domestic interest rates, a topic of considerable interest within the South African business community since December 2004. End comment.

FRAZER